OREGONLIVE

# Why the Oregon Retirement Savings Plan makes sense

Retirement plan sponsorship.jpg [FROM THE DESK OF REP. JEFF REARDON]

The percent of workers age 25-64 with access to a retirement plan at work is declining. House Bill 2960 aims to change that.

**Brent Hunsberger | For The Oregonian/OregonLive** By **Brent Hunsberger | For The Oregonian/OregonLive**

**Email the author | Follow on Twitter**

on June 07, 2015 at 6:20 AM, updated June 07, 2015 at 12:21 PM

Washington state has been ahead of Oregon on a lot of things, including setting up a health-insurance exchange that actually works.

Boosting retirement savings, however, won't be one of them.

Last month, Washington Gov. Jay Inslee signed a statewide retirement marketplace **into law**, beating Oregon lawmakers to the punch. Or so it seemed.

But a close look at Washington's law, in light of well-known research about savings behavior, suggests it won't do much to grow new nest eggs. Instead, it appears to appease an industry - namely insurance companies - that has vigorously fought smarter and more daring plans in other states, including Oregon.

Why are an estimated 20 states taking up this issue at all? Only 11 of every 25 full- and part-time workers participate in a retirement plan on the job, according to **new research** by scholars at The New School for Social Research in New York. That's mostly because they lack access to a plan at work. **In 1999**, 61 percent of U.S. employees age 25 to 64 worked at a job with a retirement plan. By 2011, that proportion had dropped to 53 percent.

That's partly why **Illinois** and California have approved statewide plans and why Oregon legislators are considering **House Bill 2960**. It would establish the Oregon Retirement Savings Board under Treasurer Ted Wheeler's office.

The board won't run a marketplace. It'll create a statewide plan, similar to the Oregon College Savings Plan, where a worker can monitor her account and maintain it regardless of where she works within the state. She can also roll it over into another workplace plan or an Individual Retirement Arrangement.

The bill doesn't specify how the plan itself will work. That would be up to the 7-person board, appointed mostly by the governor. But co-sponsor Rep. **Tobias Read**, D-Beaverton, said he envisions it looking like an IRA, with investment options overseen by a professional manager.

The bill also allocates $1 million to get the plan set up by July 1, 2017. **The joint Ways and Means committee** voted 14-8 to approve the bill on Friday. The House is expected to take it up for a vote this week.

The other key difference from Washington's marketplace is Oregon's proposed mandate. Employers who don't offer their own retirement plan will have to enroll workers in the state's plan automatically, upon hire.

Workers can opt out of the plan at any time. But if they don't, their employer will deduct a yet-to-be-determined percentage of pay and send it to the state, much as they do payroll taxes. Illinois set its default contribution rate at 3 percent.

**Comparing the plans**

**Compare** Washington's retirement plan marketplace with Oregon's proposed statewide retirement plan.

**Opting out, not opting in**

Why make workers opt out instead of opting in? Because reverse-engineered inertia can be your friend.

Mandatory enrollment does wonders to jump start participation in retirement savings, research has shown. In 2011, participation rates among employers that auto enrolled workers was 77 percent versus 67 percent among employers who let workers voluntarily opt in to retirement plans, according to **an Urban Institute analysis** of Bureau of Labor Statistics data.

The difference is even more dramatic among younger workers, **as I pointed out last year**. Vanguard **reported in 2013** that among 3,000 workplace retirement plans it manages, two in three workers under age 25 participated when automatically enrolled. If plans gave them the choice, only one in four enrolled on their own.

"We are looking to make it easy for people to do what's in their best interest," Rep. Read said. "It's easier when they don't have to take specific action. It's easier when they don't have to make a lot of complicated decisions."

Opponents have seized on this auto-enrollment idea to argue against Oregon's plan. Businesses fear extra costs and liability, even though employers won't be required to contribute. The bill also calls for the state to abandon the plan if it's found to saddle employers with liability under federal employee benefit protection law known as ERISA.

AARP and TIAA-CREF support the bill, the latter likely out of self interest. TIAA-CREF manages the state's college savings plan and would be a candidate to manage this one, too.

The rest of the insurance lobby, however, has come out against Oregon's plan. Insurers fear losing out on lucrative sales of variable annuities and whole-life insurance, which they routinely pitch as retirement-savings vehicles.

"This is not good public policy," said Standard Insurance Co.'s regulatory affairs director Tom Simpson in written testimony. "We should not as a state seek to direct low- and middle-income employees into a subpar retirement savings plan when the market is full of much better options."

Which begs the question: Why, in Oregon, do less than one-third of businesses with fewer than 25 employees offer retirement plans? That according to Richard Schwartz, vice-chair of the state task force that recommended the statewide plan. I've heard from employees and human resource managers of small businesses who'd love to find plans with investment choices that don't charge more than 1% on assets invested.

Simpson is right about avoiding a subpar plan. But that's exactly what the American Council of Insurers supported in backing Washington state's law. Interestingly, Washington's law specifically requires the director of its marketplace to include products from insurance companies. No wonder the insurance trade group embraced it.

I asked **Richard Thaler** about the differences between Oregon and Washington's plans. As a professor of behavioral sciences and economics at the University of Chicago, Thaler's research on savers' behavior helped convince Congress and President George W. Bush to change laws to allow automatic enrollment in 401(k)s. He's co-author of the book "**Nudge: Improving Decisions about Health, Wealth and Happiness**."

"Based on your description, the Oregon plan is clearly superior," Thaler said. "Automatic enrollment has proven to be highly successful in encouraging employees to join, while not obligating anyone to do anything. Incorporating this in the plan is a no brainer.

"Including an employer mandate is somewhat more intrusive," he continued, "but if done correctly, I think the costs, even to small employers, is low. The administrative costs will actually be quite small for any employer using one of the common payroll service companies such as Paychex. The state could offer a small subsidy to cover those costs."

In fact, the bill directs the board to explore such cost reductions.

**A nudge forward**

For years, employers have been offloading retirement savings responsibilities onto workers, freezing and closing pension plans while seizing upon a portion of the tax code, 401(k), that was never intended to set up retirement plans for everyone.

This trend hasn't helped most workers. Now that state governments want to fill the void with well-thought-out plans, some of those same businesses are crying foul.

The alternative? Do nothing, and in 30 years, we'll pay higher taxes to fund Social Security or watch a generation of retirees increasingly in need of support from others to survive. Why not have workers automatically saving for their own benefit? It's not a handout. It's a nudge forward.

Oregon's plan won't solve the retirement-savings crisis. Many low-paid employees simply won't amass a significant balance, even if they do participate. "401(k) plans and pensions should be the goal, not an IRA," said Standard Insurance's Simpson in an e-mail.

But short of raising Social Security taxes, this is as good a step forward as any. Employers haven't risen to the challenge. Congress hasn't, either. Now it's the states' turn. How it's done will make a difference.

-- Brent Hunsberger is an Investment Adviser Representative and CERTIFIED FINANCIAL PLANNER™certificant in Portland. For important disclosures and information about Brent, visit **ORne.ws/aboutbrent**. Reach him at itsonlymoneyblog@gmail.com or leave a message about his columns at 503-683-3098.